



# AGENDA

## Commercial and Strategy Committee Meeting Tuesday, 15 November 2022

**Date** Tuesday, 15 November 2022

**Time** following the Community Services Committee

**Location** Council Chamber  
Timaru District Council  
King George Place  
Timaru

**File Reference** 1538976

## **Timaru District Council**

**Notice is hereby given that a meeting of the Commercial and Strategy Committee will be held in the Council Chamber, Timaru District Council, King George Place, Timaru, on Tuesday 15 November 2022, at the conclusion of the Community Development Committee meeting.**

### **Commercial and Strategy Committee Members**

Peter Burt (Chairperson), Allan Booth (Deputy Chairperson), Gavin Oliver, Sally Parker, Stu Piddington, Michelle Pye, Owen Jackson, Stacey Scott, Scott Shannon and Mayor Nigel Bowen

Quorum – no less than 2 members

### **Local Authorities (Members' Interests) Act 1968**

Committee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Jason Rivett

**Acting Group Manager Commercial & Strategy**

**Order Of Business**

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<b>2</b>	<b>Identification of Items of Urgent Business.....</b>	<b>5</b>
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<b>4</b>	<b>Declaration of Conflicts of Interest .....</b>	<b>5</b>
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- 1 Apologies**
- 2 Identification of Items of Urgent Business**
- 3 Identification of Matters of a Minor Nature**
- 4 Declaration of Conflicts of Interest**
- 5 Chairperson's Report**

## 6 Reports

### 6.1 Council Investments and Borrowing

**Author:** Azoora Ali, Chief Financial Officer

**Authoriser:** Jason Rivett, Acting Group Manager Commercial & Strategy

#### Recommendation

That the Committee receive and note the Council Investment and Borrowing report.

#### Purpose of Report

- 1 To update the Committee on the status of Council's treasury activities at 30 September 2022.

#### Assessment of Significance

- 2 This matter is assessed to be of low significance under the Council's Significance and Engagement Policy. This is a regular report to the Council on the status of Council's borrowing and investments. Council's Financial Strategy is consulted on as part of each Long Term Plan review cycle.

#### Background

- 3 Council's treasury management involves holding a range of investments and borrowing to fund long term capital projects and operational expenditure as agreed in the Annual Plan or Long Term Plan.
- 4 Council treasury activities are managed in compliance within the limits of the Council's Treasury Management Policy (TMP).
- 5 Bancorp Treasury Services Limited provide external treasury advice to Council on borrowing and investment decisions.

#### Discussion

- 6 This report is to be read in conjunction with the attached detailed report titled "Treasury Reporting Dashboard – September 2022".
- 7 Liquidity and Funding
  - i. Liquidity and funding refers to total external Council drawn debt and undrawn bank facilities. The funding profiles and sources must agree with policy control limits.
  - ii. Timaru District Council has access to three key sources of funding from the Local Government Funding Agency ("LGFA"). These are:
    - Commercial Paper ("CP") – unsecured money market instrument issued in the form of a promissory note;
    - Floating Rate Notes ("FRN") – debt instruments with variable interest rates; and
    - Fixed Rate Bonds ("FRB") – fixed rate throughout the life of the bond.

- iii. Total borrowings as at 30 September 2022 were \$179.5m. The net debt position at the same date is \$149 million. Net debt is total borrowings less cash reserves held by Council.
- iv. Debt to revenue ratio as at September 2022 is 146%. Council's debt to revenue ratio limit is 210% as set out in its Financial Strategy.
- v. All Liquidity and Funding limits are compliant with policies.

## 8 Interest Rate Risk

- i. The Interest rate risk section of the report refers to whether Council's hedging profile is within policy limits as well as the split between Fixed Debt and Floating cover.
- ii. The chart on the attached hedging profile on page 5 is based on 75% of LTP debt projections scenario which the Council believes is realistic and achievable. This illustrates that the Council is within the policy bands contained in the LTP.
- iv. All Up Weighted Average Cost of Funds Including Margin is 3.44%.
- v. All interest rates are within policy bands.
- vi. As at 30 September 2022, the Council has a total of \$81 million of interest rate swaps with various maturity start and end dates through to June 2028. The net increase in fair value gain on revaluation for the current quarter is \$1.1 million.

## 9 Investment Management

- i. Cash investments are broken down by special and general funds.
- ii. Special Funds are held for specific purposes as set out in the Long Term Plan, Annual Plan and Annual Report. These funds are invested for approved future expenditure, to implement strategic initiatives, support intergenerational allocations, bequests and other reserves.
- iii. General Funds are cash reserves held for day to day operating activities. General Fund balances fluctuate across the quarter depending on operational income and expenditure cash flows. Council has a financial strategy to maintain a minimum of \$10 million general funds for liquidity purposes.
- iv. The total cash investments of Council as at 30 September is \$31 million.

## 10 Overall Summary

- i. As at 30 September 2022, all transactions have been transacted in compliance with Council Policies and performance of Council Treasury activities are well managed.

## Attachments

- 1. **Treasury Reporting Dashboard – September 2022** [!\[\]\(dce81645e0100714e86d66fe4d06ecba\_img.jpg\) !\[\]\(2f7100595fe61fbdc3e7ec71332af01e\_img.jpg\)](#)



# Treasury Reporting Dashboard

September 2022

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# Economic Commentary

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## Global

- › The global fight against inflation was the key factor over the September quarter, with interest rate increases prevalent across the OECD. The August meeting of the world's central bankers in Jackson Hole, Wyoming, provided the perfect opportunity for policymakers to publicly state their inflation-fighting credentials. US Federal Reserve ("Fed") Chair, Jerome Powell, in his keynote speech, stated that the Fed would "*use our tools forcefully*" to attack inflation and that higher interest rates would persist "*for some time*". He also warned that further tightening would cause pain for many households and businesses, "*but a failure to restore price stability would mean far greater pain*", concluding that "*we must keep at it until the job is done.*"
- › Following on from the Jackson Hole meeting, risk appetite evaporated following the US inflation release, which exceeded expectations at 8.3%. Energy costs surged 23.8% on the year while food prices increased 11.4%. However, the real shock was the fact that core inflation rose to 6.3%, from July's 5.9%, highlighting the risk that inflation could become embedded in the US economy and, by default, the global economy. This was then followed by the September Federal Open Market Committee (FOMC) meeting where the Fed raised the Fed Funds rate by 75bps for the third consecutive time into a 3.0%-3.25% range, with the forecasts suggesting the midpoint will eventually top out in a 4.4%-4.9% range in 2023, up on June's 3.6%- 4.1% range.
- › The market reacted quickly, with equity markets hit particularly hard, while the 10-year US treasury spiked from its early August low near 2.50% to a decade high of 3.93%, before finishing the quarter at 3.71%. Jerome Powell was explicit stating, "*in light of the high inflation we're seeing, we think that we'll need to bring our fund's rate to a restrictive level, and to keep it there for some time. We believe that we need to raise our policy stance overall to a level that is restrictive, putting meaningful downward pressure on inflation.*" With a soft landing, or even a moderate recession unlikely, investors are battening down the hatches in preparation for a prolonged recession, with global equity markets remaining under pressure. Meanwhile, commodity markets are under pressure as traders start to price in the possibility of a global recession.
- › In England there was a severe market backlash against the UK mini-budget and its fiscal policies, part of which saw significant unfunded tax cuts for the wealthy. The pound fell to record lows against the US dollar and while the Bank of England has been forced to intervene in their bond markets, significant interest rate increases are expected in the short term.
- › The Reserve Bank of Australia increased the cash rate in September by 0.50% to 2.35%, as expected, with financial markets pricing in another 50bps at its October meeting after the Board gave itself some 'wiggle room' to adjust the pace of tightening cycle after the Governor stated it's "*not on a pre-set path,*" which contributed to further AUD weakness.

# Economic Commentary

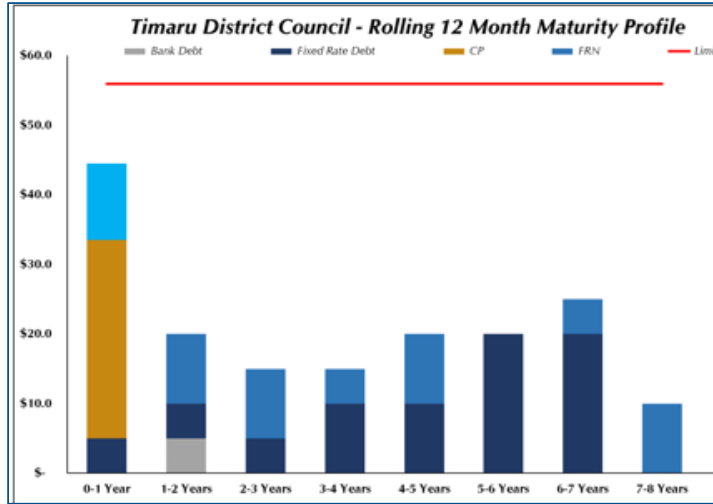
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## New Zealand

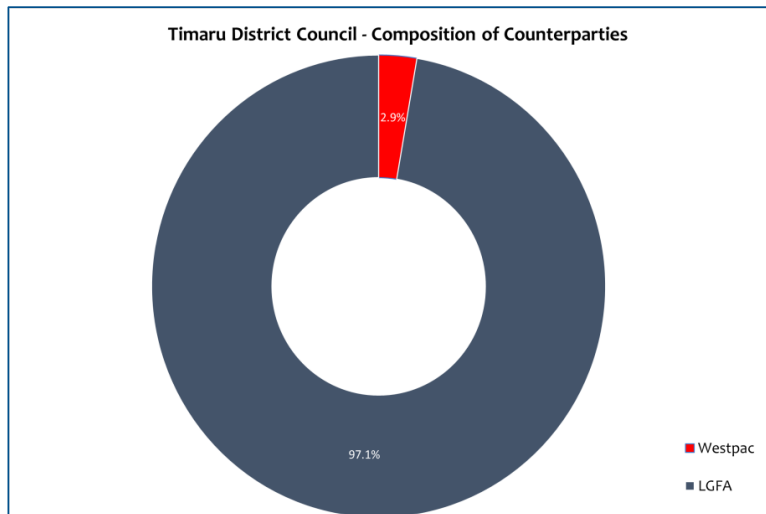
- › At its August meeting, the Reserve Bank of New Zealand (“RBNZ”) increased the Official Cash Rate (“OCR”) by 0.50%, to 3.00%, and indicated further hikes will be required. The RBNZ Governor, Adrian Orr, also noted in an interview at Jackson Hole that, “*we think there will be at least another two rate hikes (although) our core view is we won’t see a technical recession.*” But while the New Zealand economic data remains weak and the consumer and business confidence remaining at recessionary levels, there was some positivity after the Q2 GDP print was at the top of market expectations at 1.7%, although the data didn’t impact markets given the ‘backwards-looking’ nature of the release.
- › After falling sharply from 4.50% back towards 3.50% by early August, swap rates moved sharply higher over the remainder of the quarter finishing in the mid to high 4.00’s as local markets took their cue from US the moves. The domestic curve remains inverted with the 2-year and 10-the year swap spread at minus 0.24%, this inversion in the past has been a precursor to a recession. The volatility in swap rates over the past few months has been extremely high, this showcased the challenging times that both central banks and the markets are having, dealing with the after-effects of the massive amount of stimulus pumped into the financial system to counteract the economic impact of COVID-19.
- › A key focus/headwind for the RBNZ is the sharply weaker NZD over the September quarter (which is approaching levels similar to that seen during the GFC), which will likely see imports cost more and lead to further inflationary pressures. While a very strong USD is the main factor behind this weakness the NZD also came under renewed selling pressure after the RBNZ Governor, Adrian Orr, stated “*we still have some work to do but the good news is because we’ve done so much already, the tightening cycle is very mature, it’s well advanced.*” The next *Monetary Policy Review* is on 5 October where a 50bps point increase is universally expected. There is also a heightened level of anticipation as to whether the Governor will make any comment on the level of the NZ dollar in light of its very sharp fall. Some commentators are even suggesting that conditions are ripe for some form of intervention in the local currency, something not seen for a long time.
- › Beyond October markets are pricing in another 50bps increase in the OCR in November but after that expectations as to the size of the tightening’s decrease with a further 75 bps hikes projected by July 2023 and the OCR peaking around 4.75%. However, by the time the RBNZ meets in late November the all-important inflation data for the September quarter will have been released which will have an impact on the direction of monetary policy.

# Liquidity and Funding

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Funding KPI	Minimum %	Actual	Compliant?
Liquidity	110%	Actual – 121.50%	Yes
Funding Maturity Profile			Yes
Debt to revenue ratio	146%		Yes



**Debt**  
**\$179.5m**  
 Total External Council Drawn Debt

**LGFA**  
**\$179.5**  
 Funds Drawn from LGFA

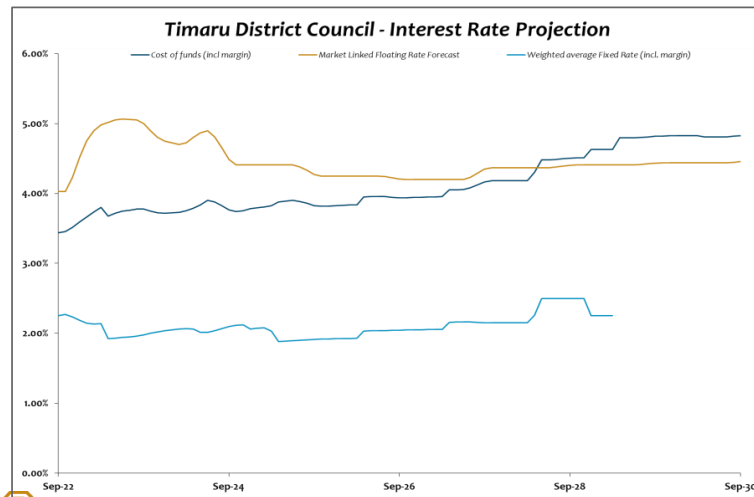
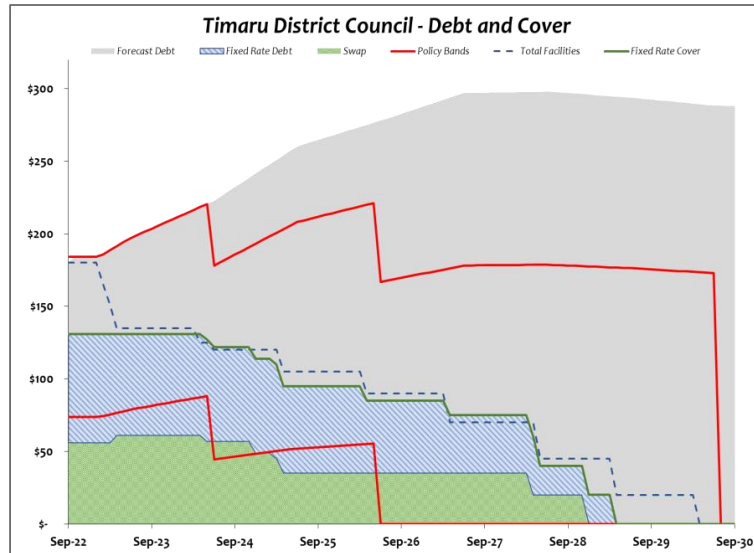
**Headroom/Bank facility**  
**\$5.0m**  
 Undrawn Bank Facilities

**Net debt**  
**\$149.0m**

Policy Compliance	Compliant	Flag
Have all transactions been transacted in compliance with policy?	Yes	Green Flag
Is fixed interest rate cover within policy control limits?	Yes	Green Flag
Is the funding maturity profile within policy control limits?	Yes	Green Flag
Is liquidity within policy control limits?	Yes	Green Flag
Are all counterparty exposures within policy control limits?	Yes	Green Flag



# Interest Rate Risk



<b>Current % of Debt Fixed</b>	<b>71.2%</b>
<b>Current % of Debt Floating</b>	<b>28.8%</b>
<b>Value of Fixed Rate (m)</b>	<b>\$131.0</b>
<b>Weighted Average Cost of Fixed Rate Instruments</b>	<b>3.49%</b>
<b>Value of Forward Starting Cover</b>	<b>\$15.0</b>
<b>Weighted Average Cost of Forward Starting Cover</b>	<b>1.98%</b>
<b>Value of Floating Rate (m)</b>	<b>\$53.0</b>
<b>Current Floating Rate</b>	<b>4.03%</b>
<b>Current Floating Rate (incl margin)</b>	<b>4.47%</b>
<b>All Up Weighted Average Cost of Funds Including Margin</b>	<b>3.44%</b>
<b>Total Facilities In Place</b>	<b>\$179.5</b>

Policy Bands			
	Minimum	Maximum	
0 - 2 years	40%	100%	Compliant
2 - 4 years	20%	80%	Compliant
4 - 8 years	0%	60%	Compliant



# Investment Management

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## Portfolio Summary

- › Below is a summary of the performance of TDC's Special Funds Portfolio ("SFP") and the benchmark portfolio for the quarter ended 30 September 2022.
- › The SFP outperformed the benchmark index, increasing in value by +0.12%, compared to the benchmark portfolio's decrease of 0.22%.

TDC portfolio value at 30 June 2022	\$2,839,112
TDC portfolio value at 30 September 2022	\$2,812,988
Add coupon payments	\$29,520
Purchases/sales/maturities	Nil
<b>Total</b>	<b>\$2,842,508</b>
Percentage change in effective cash value	+0.12%
Benchmark portfolio value at 30 June 2022	\$10,631,854
Benchmark portfolio value at 30 September 2022	\$10,524,538
Add coupon payments	\$84,250
<b>Total</b>	<b>\$10,608,788</b>
Percentage change in effective cash value	-0.22%

# Investment Management

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## Portfolio Activity

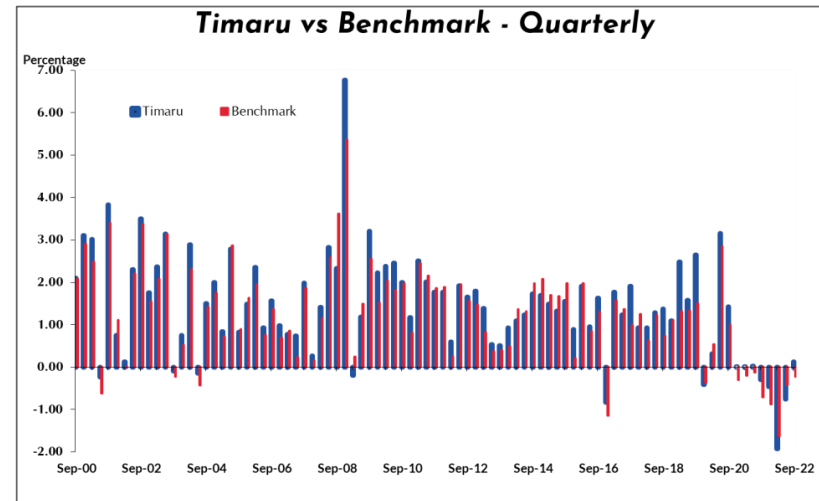
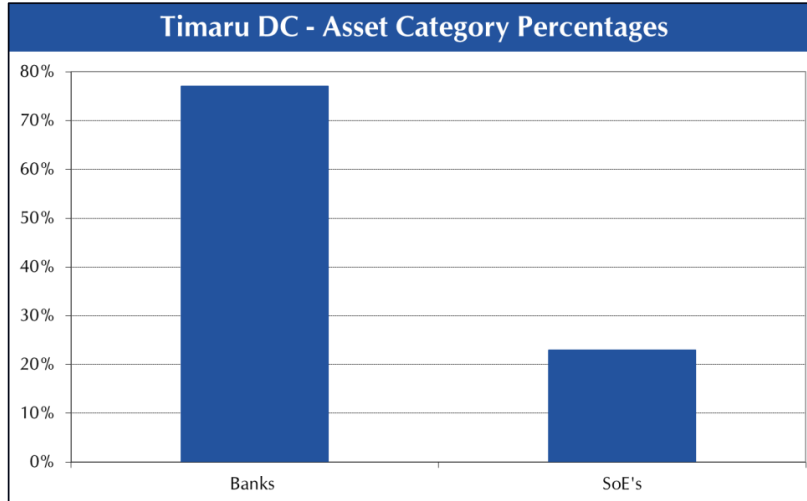
- › During the September quarter, the SFP, which had a duration of 1.68 years, outperformed the benchmark index, which had a duration of 2.24 years.
- › The weighted average purchase yield of the SFP as at 30 September was 3.68%.
- › There were no bond maturities in the SFP during the September quarter.
- › In addition to the bonds in the SFP, there was \$31 million invested in bank Term Deposits (“TD”) at the end of September.
- › The outperformance by the SFP was achieved over a quarter when interest rates continued to increase. The SFP had a shorter duration (1.68 years) than the benchmark 2.24 years. Normally a portfolio with a shorter duration will outperform a portfolio with a longer duration over a period when interest rates increase which is exactly what happened in the September quarter.
- › Looking at the performance in comparison to the S&P/NZX Investment Grade Corporate Bond Index (which most closely replicates the SFP), this index declined by 1.01 during the September quarter compared to the SFP’s increase of 0.12%. For the year ending 30 September, the S&P/NZX Investment Grade Corporate Bond Index declined by 6.58% compared to the SFP’s decline of 3.01%, while the benchmark index fell by 3.14% for the same period.

## Policy Adherence

- › As at 30 September, TDC was compliant with the credit rating criteria in its Investment Policy.
- › The duration of the SFP, at 1.68 years, is compliant with the duration requirement contained in the Investment Policy. Please note that TDC’s Investment Policy states that compliance with the duration control limit is not required if the nominal value of the SFP is less than \$5.0 million. In terms of liquidity, all the bonds in the SFP regularly traded on the secondary market during the September quarter. We are confident that the SFP could be sold at short notice if required.
- › As at 30 September, the asset category percentages of the SFP complied with the Investment Policy. These are detailed below and illustrated in the chart on the following page. Note that these percentages exclude the TDs.
  - › Banks 77.05%
  - › State Owned Enterprises 22.95%

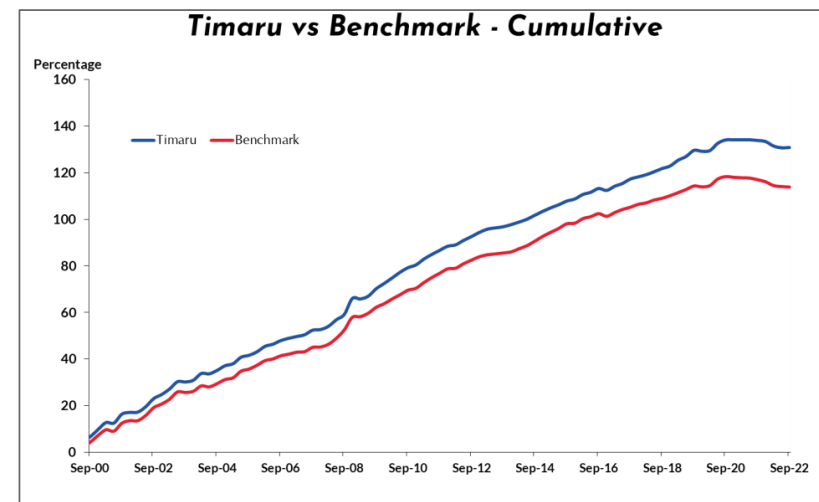
# Investment Management

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## Current term deposits

Bank	Amount	Term (days)	Maturity	Rate
ANZ	\$ 3,000,000	39	08-Nov-22	2.55%
ANZ	\$ 3,000,000	45	14-Nov-22	3.05%
ANZ	\$ 4,000,000	52	21-Nov-22	3.45%
BNZ	\$ 5,000,000	444	18-Dec-23	4.57%
BNZ	\$ 3,000,000	199	17-Apr-23	4.06%
BNZ	\$ 3,000,000	139	16-Feb-23	3.74%
BNZ	\$ 4,000,000	171	20-Mar-23	4.09%
Westpac	\$ 3,000,000	17	17-Oct-22	1.50%
Westpac	\$ 3,000,000	28	28-Oct-22	3.23%
<b>Total</b>	<b>\$31,000,000</b>			



# Investment Management

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Benchmark										
Security	Maturity Date	Coupon	30-Jun-22 Nominal \$	Yield	Value \$	30-Sep-22 Nominal \$	Coupons 01/07 to 30/09 \$	Yield	Value \$	Effective cash 30/09/2022 \$
90 Day Bank Bill	30-Sep-22		1,000,000	2.83	992,917	1,000,000		3.83	990,439	990,439
Auck Int Airport	9-Nov-22	4.28	1,000,000	3.35	1,009,272	1,000,000		3.73	1,017,276	1,017,276
Transpower	15-Mar-23	5.44	1,000,000	3.86	1,026,704	1,000,000	\$27,200	4.27	1,007,473	1,034,673
Westpac	23-Mar-23	3.72	1,000,000	3.93	1,008,464	1,000,000	\$18,600	4.28	998,067	1,016,667
ASB Bank	19-Aug-24	1.83	1,000,000	4.60	950,803	1,000,000	\$9,150	5.15	942,950	952,100
BNZ	29-Jan-25	2.16	1,000,000	4.66	948,934	1,000,000	\$10,800	5.19	938,000	948,800
Fonterra	14-Nov-25	4.15	1,000,000	4.80	985,236	1,000,000		5.36	981,258	981,258
LGFA	15-Apr-26	1.50	1,000,000	4.25	907,707	1,000,000		4.97	895,472	895,472
Housing NZ	5-Oct-26	2.25	1,000,000	4.25	927,987	1,000,000		4.93	914,418	914,418
Westpac	16-Feb-27	3.70	1,000,000	4.94	962,890	1,000,000	\$18,500	5.35	940,834	959,334
Auckland Council	20-Oct-27	2.41	1,000,000	4.41	910,939	1,000,000		4.95	898,351	898,351
			<u>\$11,000,000</u>		<u>\$10,631,854</u>	<u>\$11,000,000</u>	<u>\$84,250</u>		<u>\$10,524,538</u>	<u>\$10,608,788</u>
Value as at 30/06/2022					\$10,631,854				30/09/2022	10,524,538
									Coupons	84,250
									Total	10,608,788
									Effective change in cash	-\$23,067
									% change	-0.22%
									Duration-years	2.24

Timaru District Council											
Security	Rating	Maturity Date	Coupon	30-Jun-22 \$	Yield	Value \$	30-Sep-22 \$	Coupons 01/07 to 30/09 \$	Yield	Value \$	Effective Cash 30/09/2022 \$
Genesis	BBB+	8-Mar-23	5.81	500,000	4.17	514,486	500,000	14,525	4.56	504,422	518,947
BNZ	AA-	15-Jun-23	4.10	500,000	4.20	500,367	500,000		4.64	504,106	504,106
CCB	A	23-Jun-23	4.00	750,000	4.68	745,733	750,000		5.25	751,442	751,442
Meridian	BBB+	27-Jun-25	4.21	170,000	4.91	166,784	170,000		5.47	166,462	166,462
ANZ	A-	17-Sep-26	3.00	1,000,000	5.61	911,741	1,000,000	14,995	6.31	886,556	901,551
				<u>\$2,920,000</u>		<u>\$2,839,112</u>	<u>\$2,920,000</u>	<u>\$29,520</u>		<u>\$2,812,988</u>	<u>\$2,842,508</u>
Value 30/06/2022						\$2,839,112	Value 30/09/2022			2,812,988	
							Coupons			29,520	
							Adjustments			Nil	
										<u>2,842,508</u>	
							Effective change in cash			\$3,396	
							Duration-Years	1.68	% change	0.12%	







**6.2 Financial Report for the month ending September 2022****Author:** Azoora Ali, Chief Financial Officer**Authoriser:** Jason Rivett, Acting Group Manager Commercial & Strategy**Recommendation**

1. That the summary financial results to 30 September 2022 be received and noted.

**Purpose of Report**

- 1 The purpose of this report is to outline progress on implementing year two of the 2021-31 Long Term Plan (LTP) and report on the financial results for the period ended 30 September 2022.

**Assessment of Significance**

- 2 This matter is considered to be of low significance in terms of Council's Significance and Engagement Policy. It is a regular report to the Commercial and Strategy Committee on Council's financial performance during the current financial year.

**Discussion**

- 3 The following is a summary of the financial performance for the period ended 30 September 2022, and overall Council has tracked well for the period against its key metrics (refer to Attachment 1). Note that the first forecast for the month will be completed during quarter two, which will pick up any key timing differences that have resulted since the adoption of the Annual Plan in June 2022.

	Actuals to 30 September 2022 (\$000)	Budget* to 30 September 2022 (\$000)
Total Revenue	26,544	25,530
Total Expenses	25,308	25,468
Operating Surplus	1,236	62

\* Budget – LTP estimated budget as at 30 September 2022.

- 4 The attached statements and commentary relate to the 30 September 2022 financial results.
- 5 The overall financial results show a favourable surplus to date of \$186,000, and note the amounts presented in this report are rounded. This is a \$124,000 favourable variance to budget.
- 6 Operating Revenue to 30 September 2022 is \$1M above budget. Revenue received represents 25% of total revenue budgeted for the financial year. The major variances compared to budget are:
  - i. Rates revenue - \$139,000 favourable variance due to a timing difference relating to 6 monthly arrears.

- ii. Subsidies and grants - \$572,000 un-favourable variance
    - Theatre Royal grants are budgeted at \$615,000 year to date with \$nil being received. These grants are received in lump sums based on stage of completion. Activity on this project has now paused until community consultation feedback has been received and the Ministry of Business, Innovation and Employment (MBIE) have been notified.
  - iii. Fees & Charges - \$315,000 favourable variance
    - Dog Registration fees are \$318,000 above budget year to date, as these are yearly fees and largely fall due at the beginning of each financial year.
    - Parking Infringements and fines are \$108,000 above budget year to date.
    - Waste Minimisation fees are \$202,000 below budget year to date, of which \$103,000 relates to waste collection bin lease income no longer receivable due to a change in contract/supplier.
    - The remaining favourable variance consists of many smaller variances to budget below \$100,000.
  - iv. Other Revenue – \$79,000 favourable variance, mainly due to timing differences in petrol tax receipts.
  - v. Finance Revenue - \$394,000 favourable variance
    - Interest income received is higher than budget due to rising interest rates. Related party interest was budgeted at 2.74%, the Council is currently receiving 4.67%. Investment interest was budgeted at 1.3%, currently receiving 3.55% on average (increasing upon investment maturity and re-investment).
  - vi. Dividend Revenue - \$266,000 unfavourable variance
    - Dividends from TDHL are received periodically, budget assumes receipt of an even \$88,000 per month.
  - vii. Other gains - \$1M favourable variance
    - A fair value gain on revaluation of interest rate swaps has been recognised. At 30 June 2022 the value of derivatives was a \$3.1M asset. This has continued to increase in value and is now a \$4.2M asset. This is due to rising floating rates causing a favourable outcome on swaps entered into.
- 7 Operating Expenditure to 30 September 2022 is \$25.3M, which is \$160,000 below budgeted expenditure. Expenditure to date represents 25% of total expenditure budgeted for in the financial year. The key variances within expenditure are:
- i. Personnel Costs \$436,000 less than budget resulting in a favourable variance, mainly due to vacancies and detailed further in the attachment.
  - ii. Finance costs \$161,000 higher than budget due to extra loan's taken out during the year (offset by finance revenue surplus).
  - iii. Other expense being \$115,000 higher than budget, made up of a number of variances across units as outlined in the detailed attachment.

- 8 The total actual capital expenditure is \$9.5M. This is lower than budget by \$3.0M and represents 12% of our full year budget for this financial year.
- 9 Total borrowings as at 30 September 2022 were \$179.5M. The net debt position at the same date is \$149M. Net debt is total borrowings less cash reserves held by Council.
- 10 Debt to revenue ratio as at 30 September 2022 is 146%. Council's debt to revenue ratio limit is 210% as set out in its Financial Strategy. This is comfortably within Council's ceiling limit.

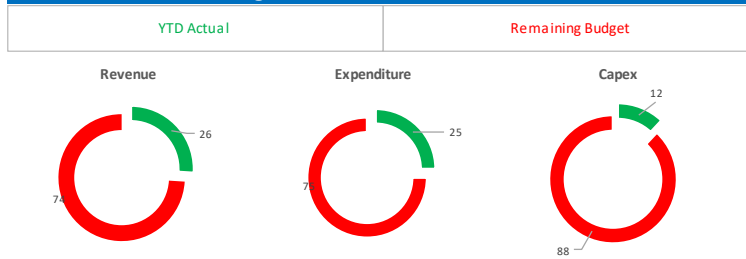
### Attachments

1. **Council Financial Performance & Variance Analysis September 2022**  

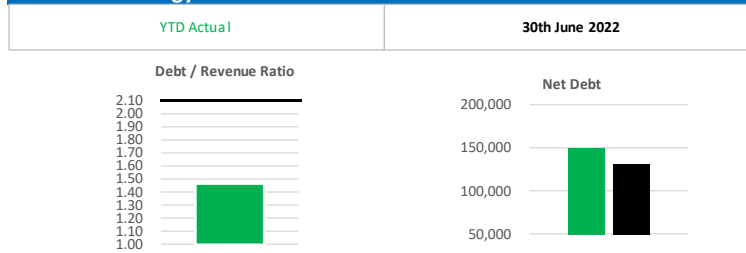
## Council Financial Performance & Variance Analysis Summary as at 30 September 2022

### Council Performance as at 30 Sep 2022

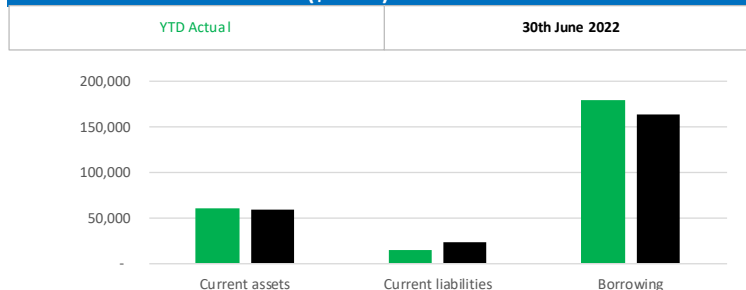
#### YTD Actual % of FY Budget



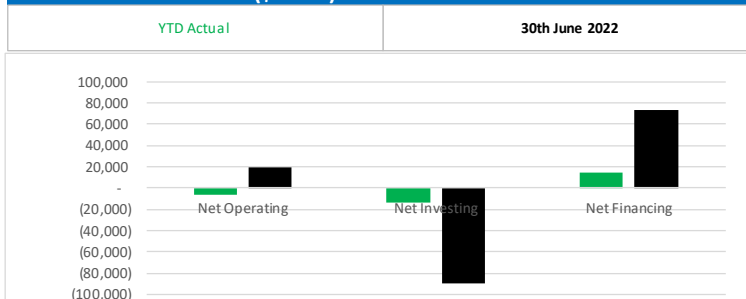
#### Financial Strategy






#### Financial Position - Balances (\$'000's)



#### Cashflow - Movements (\$'000's)



Council Performance as at 30 Sep 2022							
YTD Actual % of FY Budget							
YTD Actual		Remaining Budget					
Revenue	Expenditure	Capex					
			Year to Date			Full year	YTD Actual % of
Actual	Budget	Variance	Budget	Budget	FY Budget		
\$000's	\$000's	\$000's	\$000's	\$000's	\$000's		
<b>Operating Revenue</b>							
Rates revenue	16,368	16,229	139	64,917	25%		
Subsidies and grants	2,668	3,240	(572)	12,962	21%		
Fees & charges	4,858	4,543	315	18,170	27%		
Other revenue	929	1,008	(79)	4,032	23%		
Finance revenue	634	240	394	962	66%		
Dividend revenue	-	266	(266)	1,065	0%		
Other gains	1,087	4	1,083	15	7247%		
<b>Total Operating Revenue</b>	<b>26,544</b>	<b>25,530</b>	<b>1,014</b>	<b>102,123</b>	<b>26%</b>		
<b>Operating Expenditure</b>							
Personnel costs	5,942	6,378	436	25,511	23%		
Depreciation expense	6,300	6,300	-	25,199	25%		
Finance costs	1,263	1,102	(161)	4,407	29%		
Other expenses	11,803	11,688	(115)	46,765	25%		
<b>Total Operating Expenditure</b>	<b>25,308</b>	<b>25,468</b>	<b>160</b>	<b>101,882</b>	<b>25%</b>		
<b>Operating Surplus/(Deficit)</b>	<b>1,236</b>	<b>62</b>	<b>1,174</b>	<b>241</b>			
<b>Capital Expenditure</b>							
Community Support	438	191	(247)	4,902	9%		
Corporate Support	556	382	(174)	2,501	22%		
Roading and Footpaths	1,479	2,926	1,447	19,008	8%		
Sewer	549	716	167	3,346	16%		
Stormwater	676	146	(530)	1,982	34%		
Waste Minimisation	208	697	489	3,253	6%		
Water Supply	3,031	3,930	899	16,044	19%		
Recreation and Leisure	2,526	3,524	998	25,279	10%		
<b>Total Capital Expenditure</b>	<b>9,463</b>	<b>12,512</b>	<b>3,049</b>	<b>76,316</b>	<b>12%</b>		

## Notes to the Financial Statements for 30 September 2022

### Interpretation

1. Variances greater than \$100,000 are explained below.
  - i. **F** (favourable variance) means that either actual revenue is greater than budget or actual expenditure is less than budget.
  - ii. **U** (unfavourable variance) is when actual revenue is less than budget or actual expenditure is greater than budget.
2. Downlands Water is reported at 82% (TDC's shareholding in the scheme) in these financial reports.
3. Variance analysis for full year actuals against the year to date budget for Council Performance (Actuals 2022/23 to Budget 2022/23) is presented below.
4. **Operating Revenue – Variances and explanations for Council performance are as follows ( YTD Variance Actuals 2022/23 to Budget 2022/23):**
  - i. **Rates revenue – \$139K F**

*Reason for variance*

    - Rates penalties are \$113K above budget year to date, a timing difference relating to 6 monthly arrears.
  - ii. **Subsidies and grants – \$572K U**

*Reason for variance*

    - Theatre Royal grants are budgeted at \$615,000 year to date with \$nil being received. These grants are received in lump sums based on stage of completion. Activity on this project has now paused until community consultation feedback has been received and the Ministry of Business, Innovation and Employment (MBIE) have been notified.
  - iii. **Fees & charges - \$315K F**

*Reason for variance*

    - Dog Registration fees are \$318K above budget year to date, as these yearly fees largely fall due at the beginning of the financial year.
    - Parking Infringements and fines are \$108K above budget year to date.
    - Waste Minimisation fees are \$202K below budget year to date, of which \$103K relates to waste collection bin lease income no longer receivable due to a change in contract/supplier.

- The remaining favourable variance consists of many smaller variances to budget below \$100K, including Sewer tradewaste and other user charges at \$94K above budget year to date.

**iv. Finance Revenue - \$394K F**

*Reason for variance*

- Interest income received is higher than budget due to rising interest rates. Related party interest was budgeted at 2.74%, currently receiving 4.67%. Investment interest was budgeted at 1.3%, currently receiving 3.55% on average (increasing upon investment maturity and re-investment).

**v. Dividend Revenue - \$266K U**

*Reason for variance*

- Dividends are received periodically, budget assumes receipt of an even \$88K per month.

**vi. Other gains - \$1,087K F**

*Reason for variance*

An unbudgeted fair value gain on revaluation of interest rate swaps has been recognised. At 30 June 2022 the value of derivatives was a \$3.1M asset. This has continued to increase in value and is now a \$4.2M asset. This is due to rising floating rates causing a favourable outcome on swaps entered into.

**5. Operating Expenditure – Variances and explanations for Council Performance ( YTD Variance Actuals 2022/23 to Budget 2022/23):**

**i. Personnel costs – \$436K F**

*Reason for variance*

- Salaries and wages are below budget year to date. This is mainly attributed to vacancies, which is a product of challenges in recruitment. Significant variances are as follows with further detail provided in the Council Performance by Activity analysis:
  - i. Corporate Support \$543K F
  - ii. Environmental Services \$167K F
  - iii. Recreation & Leisure \$321K F
  - iv. The above favourable variances are partially offset by the \$573K year to date vacancy factor applied in 2022/23.

**ii. Finance Costs – \$161K U**

*Reason for variance*

- The unfavourable variance is a result of rising interest costs on borrowings and interest rate swap payments.

**iii. Other Expenses - \$115K U**

*Reason for variance*

Significant variances (favourable and unfavourable) are as follows with further detail provided in the Council Performance by Activity analysis:



- i. Community Support - \$241K U
- ii. Corporate Support - \$877 K U
- iii. District Planning & Environmental Services - \$211K F
- iv. Recreation and Leisure - \$435K F
- v. Roding & Footpaths \$385K U
- vi. Waste Minimisation \$192K F
- vii. Water Supplies \$308K F

## YTD Variance for Activity Groups Actuals 2022/23 to Budget 2022/23

YTD Actual % of FY Budget			Council Performance as at 30 Sep 2022				
YTD Actual		Remaining Budget	Year to Date			Full year	YTD Actual % of
Revenue	Expenditure	Capex	Actual	Budget	Variance Budget	Budget	FY Budget
			\$000's	\$000's	\$000's	\$000's	
<b>Operating Revenue</b>							
Community Support			1,747	1,717	30	6,868	25%
Corporate Support			535	(503)	1,038	(2,013)	-27%
Roading and Footpaths			6,629	6,416	213	25,664	26%
Sewer			2,277	2,145	132	8,580	27%
Stormwater			807	756	51	3,023	27%
Waste Minimisation			2,272	2,414	(142)	9,658	24%
Water Supply			3,237	3,153	84	12,611	26%
Recreation and Leisure			5,343	6,038	(695)	24,153	22%
Governance and Strategy			1,189	1,173	16	4,691	25%
Environmental Services			2,509	2,220	289	8,888	28%
<b>Total Operating Revenue</b>			<b>26,545</b>	<b>25,529</b>	<b>1,016</b>	<b>102,123</b>	<b>26%</b>
<b>Operating Expenditure</b>							
Community Support			1,830	1,621	(209)	6,486	28%
Corporate Support			1,897	832	(1,065)	3,326	57%
Roading and Footpaths			6,111	5,739	(372)	22,957	27%
Sewer			2,077	2,145	68	8,580	24%
Stormwater			691	756	65	3,023	23%
Waste Minimisation			2,280	2,414	134	9,658	24%
Water Supply			2,824	3,153	329	12,614	22%
Recreation and Leisure			4,665	5,421	756	21,686	22%
Governance and Strategy			1,100	1,173	73	4,691	23%
Environmental Services			1,833	2,213	380	8,861	21%
<b>Total Operating Expenditure</b>			<b>25,308</b>	<b>25,467</b>	<b>159</b>	<b>101,882</b>	<b>25%</b>
<b>Operating Surplus/(Deficit)</b>			<b>1,237</b>	<b>62</b>	<b>1,175</b>	<b>241</b>	
<b>Capital Expenditure</b>							
Community Support			438	191	(247)	4,902	9%
Corporate Support			556	382	(174)	2,501	22%
Roading and Footpaths			1,479	2,926	1,447	19,008	8%
Sewer			549	716	167	3,346	16%
Stormwater			676	146	(530)	1,982	34%
Waste Minimisation			208	697	489	3,253	6%
Water Supply			3,031	3,930	899	16,044	19%
Recreation and Leisure			2,526	3,524	998	25,279	10%
<b>Total Capital Expenditure</b>			<b>9,463</b>	<b>12,512</b>	<b>3,049</b>	<b>76,316</b>	<b>12%</b>

6. Variance analysis for year to date actuals against budget for Activity Groups (Actuals 2022/23 to Budget 2022/23) is presented below
7. Operating Revenue – variances for activity groups (actuals 2022/23 to budget 2022/23) are as follows:
- i. **Corporate Support - \$1,038K F**  
*Reason for variance*
    - An unbudgeted fair value gain on revaluation of interest rate swaps has been recognised. At 30 June 2022 the value of derivatives was a \$3.1M asset. This has continued to increase in value and is now a \$4.2M asset. This is due to rising floating rates causing a favourable outcome on swaps entered into.
  - ii. **Roading & footpaths - \$213K F**  
*Reason for variance*
    - Parking Infringements and fines are \$108K above budget year to date.
    - The remaining favourable variance consists of smaller variances including Waka Kotahi subsidies \$68K above budget year to date.
  - iii. **Sewer - \$132K F**  
*Reason for variance*
    - The favourable variance consists of many smaller variances to budget below \$100K, largely from Sewer tradewaste and other user charges at \$94K above budget year to date.
  - iv. **Waste Minimisation - \$142K U**  
*Reason for variance*
    - Waste Minimisation fees are \$202K below budget year to date, of which \$103K relates to waste collection bin lease income no longer receivable due to a change in contract/supplier. The remaining variance relates to lower tonnes received in than budgeted.
  - v. **Recreation and leisure - \$695K U**  
*Reason for variance*
    - Theatre Royal grants are budgeted at \$615,000 year to date with \$nil being received. These grants are received in lump sums based on stage of completion. Activity on this project has now paused until community consultation feedback has been received and the Ministry of Business, Innovation and Employment (MBIE) have been notified.
  - vi. **Environmental Services - \$289K F**
    - Dog Registration fees are \$318K above budget year to date, as these yearly fees largely fall due at the beginning of the financial year.
    - This favourable variance is offset by some minor unfavourable variances including Building Control fees at \$60K.

8. Operating Expenditure variances for activity groups: (actuals 2022/23 to budget 2022/23) are as follows:

**i. Community support - \$209K U**

*Reason for variance*

- Economic development Grants are \$545K above budget year to date, mainly relating to a \$500K prime port grant which is a timing difference.
- Offsetting this unfavourable variance are favourable variance consisting of many smaller variances to budget below \$100K. These variances mainly reside within the following:
  - i. Social Housing \$38K F relating to maintenance
  - ii. Civil Defence \$42K F mainly relating to unspent emergency costs

**ii. Corporate Support - \$1,065K U**

*Reason for variance*

- Finance costs \$162K a result of rising interest costs on borrowings and interest rate swap payments.
- Internal charges \$440K relating to wages to be recoded to capital expenditure projects.
- IT Software \$502K relating for subscriptions – to be analysed and treated as prepayments.

**iii. Roading and Footpaths- \$372K U**

*Reason for variance*

- Subsidised roading costs were \$692K U mainly relating to road maintenance.
- Road and street landscape costs were \$120K F mainly relating to tree maintenance.
- Footpaths costs were \$97K F mainly relating to street cleaning and maintenance.
- The remaining favourable variance consists of many smaller variances to budget below \$100K. These variances mainly relate to footpath maintenance and street cleaning.

**iv. Waste Minimisation - \$134K F**

*Reason for variance*

- Waste minimisation and kerbside collection contractor costs are \$519K U above budget year to date.
- Carbon credits are \$614K F below budget. This is a timing difference as units are expected to be purchased in December to cover waste emissions for the ETS period ending 31 December 2022.

**v. Water Supplies - \$366K F***Reason for variance*

- Downlands Water Supply costs are \$148K F below budget, mostly relating to reticulation costs, and maintenance.
- The remaining favourable variance consists of many smaller variances to budget below \$100K. These variances include Urban Water Supply \$71K, Seadown Water Supply 25K and Te Moana Water Supply \$66K.

**vi. Recreation and leisure - \$756K F***Reason for variance*

- Salaries and wages are \$321K below budget year to date including CBAY 104K overall. Libraries, Art Gallery and Museum also have favourable variances between \$51K - \$59K.
- Parks ground maintenance is \$251K below budget year to date.
- The remaining favourable variance consists of many smaller variances to budget below \$100K. These variances mainly reside within CBAY \$31K, & Libraries \$87K.

**vii. District Planning & Environmental Services - \$380K F***Reason for variance*

- Salaries and wages are \$167K below budget, mainly relating to Planning due to vacancies within the team.
- District Plan Review costs are \$280K below budget year to date.

**9. Capital expenditure variance explanations (actuals 2022/23 to budget 2022/23) are as follows:****i. Community Support – \$247K U***Reason for variance*

- Airport capital work for runway resurfacing and extension is \$396K above budget year to date due to a timing difference, as this was budgeted to occur later in the year.
- Civil Defence capital works are budgeted at \$117K year to date with \$nil spend to date.

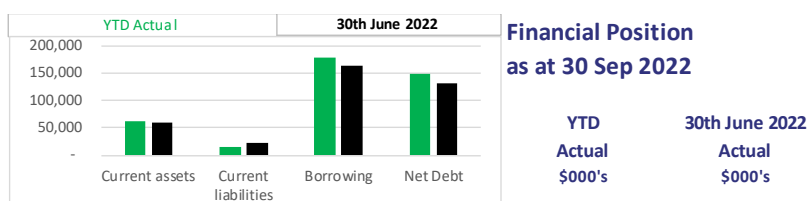
**ii. Corporate Support –\$174K U***Reason for variance*

- IT capital projects are currently \$168K above budget year to date. IT costs are budgeted at an \$60K per month, a timing difference in spend profile due to phasing.

**iii. Roading and footpaths –\$1,447K F***Reason for variance*

- City Hub \$577K below budget year to date due to a timing difference in spend profile.

- Subsidised roading & footpaths \$849K below budget year to date due to a timing difference with costs associated with emergency works completed yet to be billed.
- iv. **Sewer –\$167K F**  
*Reason for variance*
- Sewer plant and equipment renewals and upgrade projects are tracking \$104K below budgeted year to date, a timing difference as projects are expected to be completed over the full year.
- v. **Stormwater–\$530K U**  
*Reason for variance*
- Timaru Stormwater projects are currently \$280K above budget, mainly relating to Broughs Gully.
  - Geraldine Stormwater urban renewal and upgrade projects are currently \$224K above budget due to a timing difference, as this was budgeted to occur later in the year.
- vi. **Waste Minimisation – \$489K F**  
*Reason for variance*
- Cell development costs are currently \$567K below budget, this represents a timing difference.
- vii. **Water supplies –\$899K F**  
*Reason for variance*
- Downlands water supply - \$830K below budget relating to reticulation renewals budgeted at \$300K per month. This is a timing difference.
  - Urban water supply - \$510K below budget relating to Washdyke Watermain improvements. This is a timing difference.
  - Te Moana water supply - \$606K above budget. This project was budgeted in 2022 with costs falling into 2023.
- viii. **Recreation & Leisure – \$998K F**  
*Reason for variance*
- Theatre Royal - \$1M below budget year to date. Total budgeted spend for FY23 is \$17.7M.



## ASSETS

### Current assets

Cash and deposits	1,556	7,079
Debtors and other receivables	20,766	18,112
Inventories	27	25
Other financial assets	38,571	34,396
<b>Total current assets</b>	<b>60,920</b>	<b>59,612</b>

### Non\_current assets

Property plant & equipment	1,433,704	1,429,813
Intangible assets	4,060	3,310
Forestry	975	975
Investment property	1,739	1,739
Investment in cco's & other similar	55,218	55,281
Other financial assets	3,784	3,784
<b>Total non_current assets</b>	<b>1,499,480</b>	<b>1,494,902</b>
<b>Total assets</b>	<b>1,560,400</b>	<b>1,554,514</b>

## LIABILITIES

### Current liabilities

Trade and other payable	9,674	18,406
Employee benefit liabilities	4,733	4,733
<b>Total current liabilities</b>	<b>14,407</b>	<b>23,139</b>

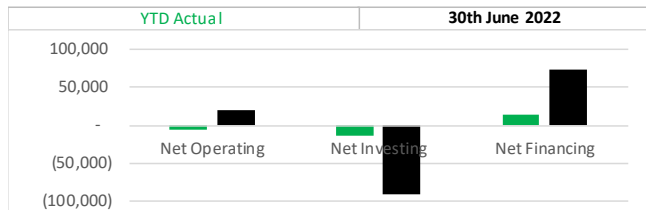
### Non\_current liabilities

Provisions	1,360	2,447
Employee benefit liabilities	578	441
Non current borrowing	179,484	164,484
<b>Total non_current liabilities</b>	<b>181,422</b>	<b>167,372</b>
<b>Total liabilities</b>	<b>195,829</b>	<b>190,511</b>

<b>Net Assets</b>	<b>1,364,571</b>	<b>1,364,003</b>
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## EQUITY

Retained earnings	808,504	807,937
Special funds	25,995	25,995
Separate funds	9,298	9,298
Asset revaluation	520,774	520,774
<b>Total equity</b>	<b>1,364,571</b>	<b>1,364,003</b>



### Statement of Cashflow as at 30 Sep 2022

YTD Actual \$000's	30th June 2022 Actual \$000's
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#### OPERATING ACTIVITIES

Rates	20,741	61,339
Other revenue received	1,183	34,550
Interest received	634	1,450
Dividends received	-	1,000
Payments to suppliers and employees	(27,527)	(75,168)
Finance costs	(1,263)	(3,913)
<b>Net operating activities</b>	<b>(6,232)</b>	<b>19,258</b>

#### INVESTING ACTIVITIES

Reduction of term investment	(4,112)	(16,445)
Proceeds from sale of property, plant and equipment	33	(307)
Purchase of property, plant and equipment	(10,212)	(73,145)
<b>Net investing activities</b>	<b>(14,291)</b>	<b>(89,897)</b>

#### FINANCING ACTIVITIES

Drawdown / (repayment) of borrowings	15,000	73,610
<b>Net financing activities</b>	<b>15,000</b>	<b>73,610</b>
Cash movement	(5,523)	2,971
Opening Balance 1st July	7,079	4,107
<b>Closing Bank Balance</b>	<b>1,556</b>	<b>7,078</b>



### 6.3 Preparation of Annual Plan 2023/24

**Author:** Ann Fitzgerald, Corporate Planner  
Mark Low, Strategy and Corporate Planning Manager  
Azoor Ali, Chief Financial Officer

**Authoriser:** Jason Rivett, Acting Group Manager Commercial & Strategy

#### Recommendations

1. That the legislative requirements for the Annual Plan process are noted.
2. That the draft Annual Plan 2023/24 timetable is confirmed.
3. That the draft assumptions for the Annual Plan 2023/24 (Long Term Plan 2021-31) are confirmed.
4. That Council note the likely variations to the Annual Plan 2023/24.
5. That the potential consequential consultation requirements for significant or material variations to the Long Term Plan are noted.

#### Purpose of Report

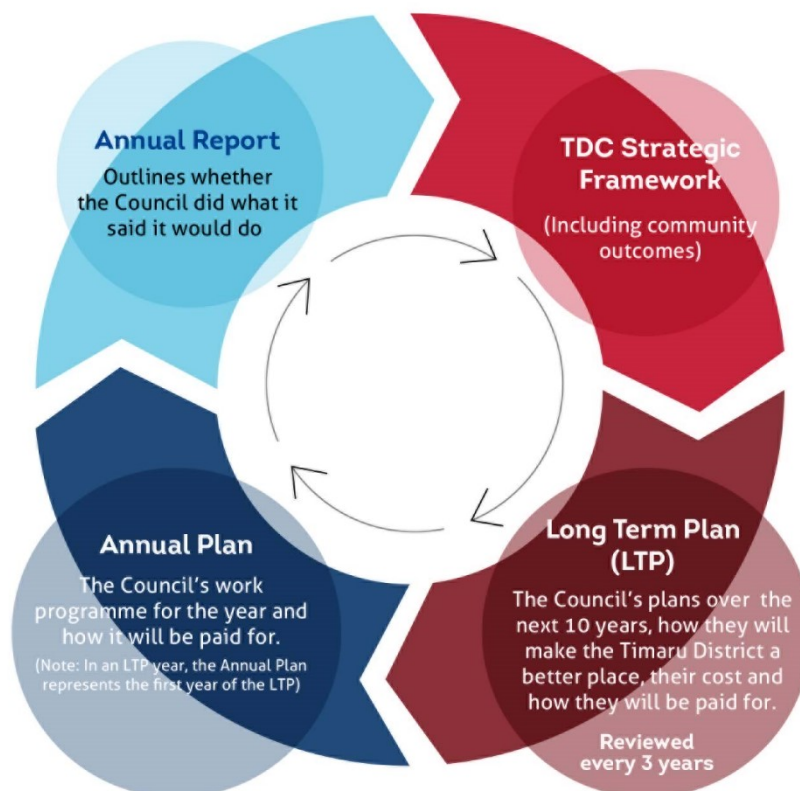
- 1 The purpose of this report is to:
  - i. Outline the Annual Plan process and timetable
  - ii. Obtain Council's confirmation of the assumptions to be used for the Annual Plan 2023/24
  - iii. Outline likely variations to Year 3 of the Long Term Plan 2021-31 and potential implications
  - iv. Note the likely consultation requirements for the Annual Plan 2023/24, and the timeframes associated with these.

#### Assessment of Significance

- 2 This matter is considered to be of low significance under the Council's Significance and Engagement policy as it relates to a required statutory planning process. Any consequential decisions relating to this are potentially of high significance, and may trigger formal consultation with the community on preferred options.

#### Background

- 3 The Local Government Act 2002 (LGA) sections 93-97 detail Council's planning responsibilities. The lead document in the planning process is the Long Term Plan (LTP). This is prepared every three years and involves extensive consultation with the community, using the Special Consultative Procedure (SCP) as required under the Local Government Act.
- 4 Annual Plans are required for the two years between LTP reviews. The first year of an LTP represents the Annual Plan for that year. The overall corporate planning cycle is shown below:



- 5 The Local Government Act 2002 requires Council to prepare and adopt an Annual Plan each financial year, the purpose of which is to:
- i. Contain the proposed annual budget and funding impact statement for the year in question
  - ii. Identify any variations from the financial statements and funding impact statement contained in the LTP, in this case Year 3 of the 2021-31 Long Term Plan
  - iii. Provide integrated decision-making and coordination of the resources of the local authority
  - iv. Contribute to the accountability of the local authority to the community.
- 6 The Annual Plan contains the information prescribed in Section 95 and part 2 of Schedule 10 of the LGA. It must include:
- i. Financial Statements (Forecasts, Funding Impact Statement, and Reserves)
  - ii. Rating Base information
  - iii. Any variations from Year 3 of the LTP – such as new proposals, significant variations or delays in projects or decisions not to proceed with projects
  - iv. Fees and Charges information for the Annual Plan year
  - v. Reference to information in the LTP (e.g. Activity Statements)
- 7 Council is not required to consult on the Annual Plan if there are no significant or material differences from the LTP, but it may also choose to do so. If the differences are deemed significant or material, in terms of the relevant legislation, then consultation with the community is required under Section 82 and 95A of the Local Government Act 2002.

- 8 The Annual Plan process is not about revisiting issues already decided in the LTP. If there are significant issues to be looked at, these may be the subject of an LTP amendment, a formal Special Consultative Procedure, or considered in the next Long Term Plan review process.
- 9 The 2024-34 Long Term Plan process will commence in early 2023.

### Annual Plan timetable

- 10 The high level timetable and key steps for the Annual Plan 2023/24 are outlined below. The key steps to note include:

Date	Annual Plan key steps
November-December 2022	Work programmes and budgets prepared, based on the financial assumptions and initial guidance from Council (at 15 November 2022) regarding how the potential key variations are to be progressed
January 2023	Draft budgets completed, reviewed by Senior Leadership Team, and a preferred position on key variances to Year 3 of LTP is established.
February 2023	Workshops with Council if required, financial modelling of key variances.
21 March 2023	Council meeting to consider draft Annual Plan and work programme. Final decision on consultation approach required for Annual Plan.
*4 April 2023	Assuming formal consultation required – Council meeting to adopt Consultation Document
13 April – 15 May 2023	Consultation period
*30 May 2023	Council meeting – Hearing on Annual plan submissions (if required)
*27 June 2023	Council meeting to adopt Annual Plan 2023/24 and rates resolution.

*\*additional – not a scheduled Council meeting*

### Key Assumptions

- 11 Variations to the Annual Plan 2023/24 priorities, work programme and budgets were set in the Long Term Plan should only be those not able to wait for consideration in the next LTP 2024-34.
- 12 The plan is proposed to be based on the following Financial Assumptions:
- i. 2023/24 capex projects are to be individually assessed for timing and cost amendments. Any increase in cost needs to be documented.
  - ii. 2023/24 opex is to be based on LTP, with exception for opex that are a direct result of changes to capex or areas where material adjustments to budgets are required. All reasons for variations to LTP figures need to be documented.

- iii. 2023/24 some specific opex base figures will be adjusted by Finance to align with calculated balances for finance costs, telephone costs, electricity, insurance, IT charges, property & building costs, taxes (FBT, ACC), salaries and wages, interest income and expenditure, depreciation, retiring gratuities, corporate overheads, sources of funding, and inflationary adjustments.
- iv. BERL adjustors, provide by Taituara, for the Local Government Cost Index (LGCI) for the 2023/24 Annual Plan process have recently been released. The LGCI, essentially the cost index for the local government sector, for 2024 is estimated at 4.2% for opex (2.5% LTP), 4.5% for capex (2.6% LTP), and 2.6% for wages and salaries. Overall this means an LGCI factor 4.3%, an increase of 1.8% from 2.5% as estimated in the Long Term Plan (also using the BERL adjustors).

### **Possible significant variations to Year 3 of the LTP**

- 13 Council is in the early stages of planning, but the likely significant and material variations to be considered in the Annual Plan 2023/24 include:

**i. Theatre Royal and Heritage Centre project - scope, cost, timing**

This relates to the final option chosen by Council and how it will be incorporated into the overall planning and financial picture, including its impact on the financial strategy.

**ii. Southern Trust Event Centre – project progression**

This project is scheduled to begin in 2023/24. \$2.3m was allocated in Year 3 of the LTP. The variation being discussed is to increase this to \$17.5m for 2023/24. A total of \$23m (uninflated, including renewals) was allocated to complete this project in the LTP, with current estimates of the cost to complete this project at \$42.5m. Questions relate to the projects current status, cost escalations and scope and how this will be addressed going forward.

**iii. Fraser Park Trust - request for additional funding**

The further request from Fraser Park Trust for funding to contribute to the Fraser Park redevelopment project was agreed to, with Council providing a grant of \$500k in 2022/23, with a request of \$250k in 2023/24 to be considered. This will likely have financial implications due to its direct impact on rates.

**iv. Peel Forest Landfill remediation**

There is currently a provision for remediation of this landfill of \$306,000. Council's current estimate is that approximately \$500,000 pa is required to monitor, manage and plan for a permanent solution. The options for a permanent solution will likely be explored as part of the next Long Term Plan. While there are a range of options, a permanent and full remediation of the site, which is currently a realistic option for consideration, has a current cost estimate of up to \$15 million. Due to the impact of recent weather events, climate change and the braided river environment of the Rangitata Awa, this project will continue to need resourcing.

**v. Timaru Microfiltration Plant – timing change to be bought forward to 2023/24**

On Oct 4, 2022 Council decided to accelerate the construction of a microfiltration plant for the Timaru water supply, with current estimates of an additional cost of \$11.1m (over that currently budgeted in the LTP). Construction is planned to start in 2023/24 with an estimated

spend during the year of \$15m, a significant increase over the \$1.2m spend proposed for 2023/24 in the LTP.

**vi. Other cost escalation**

There is likely to be cost escalation on a number of other projects given the state of the global and national economy and the current inflationary environment. Combined, this may be significant.

Key contract escalations for three water (\$18.8 million contract) and transport maintenance (\$21.4 million contract) renewals are currently 16% and estimated to be as high as 20%. Using the estimated 16% this will require an increase in opex of \$1.36 million and capex of \$4.96 million.

Parks contracts are also anticipated to have escalations, with early estimates of around \$0.6 million opex.

**vii. Fluoridation**

Council has received a letter from the Director-General of Health notifying it that active consideration is being given to Council fluoridating its community water supplies. The outcome of this will be a requirement for Council to fluoridate its water supplies, with a forecast budgeting requirement of approximately \$3 million. This is forecasted to be \$1 million for 2023/24 financial year and 2 million for 2024/25 financial year (refer attachment 1).

**viii. Impact on the Financial Strategy**

Modelling of the impact on the LTP Financial Strategy of each of these variations to the LTP Year 3 work programme is required. It will also be important to understand any consequent effects on levels of service.

**Consultation requirements**

- 14 Individual and combined, these are likely to represent “significant or material differences from the content of the long-term plan for the financial year to which the proposed annual plan relates” (LGA, s95A), and trigger a need for consultation under Section 95/95A and 82 of the LGA. How the consultation questions should be framed will need to be determined as part of this process.
- 15 Formal consultation for an Annual Plan under Section 95/95A requires the preparation of a consultation document. The purpose of the consultation document is to provide a basis for effective public participation in decision-making processes relating to the activities to be undertaken by Council in the coming year, and the effects of those on costs and funding. It would include significant and material differences between the proposed annual plan and Year 3 of the LTP, and any other relevant information that explains and informs the public and aids in their consideration. Refer to the attachment for requirements of Section 95A of the LGA.
- 16 In recent years, when formal consultation was not legislatively required, an Information Publication was prepared and circulated to all Timaru District households with the Courier community newspaper, along with promotion via social media and other consultation techniques.

- 17 The Information publication highlighted key projects planned for the year and likely rates requirements. Some general feedback was invited, with this feedback reported to and considered as part of the adoption meeting for the Annual Plan.
- 18 Depending on Council's preferred course of action regarding the potential variations to Year 3 of the LTP, formal consultation is likely to be required.

### Consultation

- 19 There are no consultation requirements at this initial stage in the Annual Plan process.

### Relevant Legislation, Council Policy and Plans

- 20 Local Government Act 2002 - sections 82, 93-97, schedule 10 part 2 sections 18-22.
- 21 Council's Long Term Plan 2021-31.



### Financial and Funding Implications

- 22 Depending on decisions made on the potential variances to the planned work programme, there could be significant financial and funding implications, including a possible redraft of the LTP Financial Strategy, particularly in relation to agreed debt limits.
- 23 Early and very high level modelling including some of the above key variations in this report show that the debt cap could reach as high as 2.77 debt to revenue ratio (LTP self-imposed limit of 2.1) through the current LTP period and possible rate rise required in the range of 7.5% - 8.5% (LTP for 2024 of 4.9%).

### Other Considerations

- 24 There are no other considerations at this stage.

### Attachments

1. **Community water fluoridation - notification of active consideration** [!\[\]\(91f916b54a4c6447ad9638d4638be954\_img.jpg\)](#) 
2. **Annual Plan - Relevant legislation** [!\[\]\(a79895cf95fd5d796d2cde6fe68d761c\_img.jpg\)](#) 



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3 November 2022

Bede Carran  
Chief Executive  
Timaru District Council  
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Tēnā koe Mr Carran

### **Community water fluoridation - notification of active consideration**

Thank you for your work to date with Manatū Hauora (the Ministry of Health) on matters concerning community water fluoridation.

As you will be aware, in July 2022, the Director-General of Health issued directions to 14 local authorities to fluoridate some or all of their drinking water supplies. Consistent with the Director-General's June 2022 letter to you, I am now writing to a second set of 27 local authorities advising each that I am actively considering whether to issue a direction to fluoridate some or all of its drinking water supplies. I have chosen to prioritise consideration of these 27 local authorities based on the needs and size of the populations served by their water supplies.

The Timaru District Council is one of the local authorities I am now actively considering for a potential direction to fluoridate. I will consider separately each of the following drinking water supplies in your area: Timaru City, Temuka, Downlands - Te Ana Wai, Geraldine, Te Moana Scheme, Pleasant Point, Seadown, and Downlands - Waitohi.

Regarding each water supply listed above, before I can decide whether to issue a direction to fluoridate, I am required under section 116G(2) of the Health Act (the Act) to invite written comment from you on:

- a) the estimated financial cost of adding fluoride to the drinking water, including any additional costs of ongoing management and monitoring
- b) the date by which your local authority would be able to comply with a direction to fluoridate.

Thank you for providing information earlier this year on the status of the fluoridation infrastructure in your area and the estimated costs and timeframes that would be necessary to fluoridate your drinking water supplies. That information is summarised in the attached table. Please note that the table expresses the information you provided about timeframes in terms of the number of months it would take to implement community water fluoridation if a



direction were given and funding available. Please confirm or update the attached table and, where applicable, provide additional comment.

The Act requires that I give you at least 40 working days to respond to my request for written comment. To take into account the summer holiday period, I am giving you an additional 20 working days to respond. Please provide written comment to me **by 2 February 2023**. Please send your response to [fluoride@health.govt.nz](mailto:fluoride@health.govt.nz).

When deciding whether to issue any directions to fluoridate I will also consider the scientific evidence on the effectiveness of fluoridation and, for each drinking water supply, whether the benefits of fluoridation outweigh the financial cost, taking into account the oral health status, population size, and estimated costs of fluoridation.

I continue to be mindful of current service delivery pressures across the water services and broader local government sectors. In light of this, if I do issue directions regarding your drinking water supplies, they will have compliance dates set for after July 2024 when the new water service entities are due to be established.

An official from Manatū Hauora will contact your team during the consultation phase to discuss any questions you may have. Manatū Hauora recognises that this is a busy time for local authorities and wishes to work with you to make the process as straightforward as possible for your team.

Nāku noa, nā

A handwritten signature in blue ink, appearing to read 'Diana Sarfati'.

Dr Diana Sarfati  
**Te Tumu Whakarae mō te Hauora**  
**Director-General of Health**





### Information about drinking water supplies for Timaru District Council

Local Authority	Reticulated drinking water supply name	Water supply pop	Estimated number of months to fluoridate if a direction is given and funding available	Estimated capital works cost to fluoridate	Estimated ongoing mgmt. & monitoring costs	Additional comments
Timaru District Council	Timaru City	26832	18	\$550,000		
	Temuka	4620	15	\$450,000		
	Downlands – Te Ana Wai	4550	9	\$350,000		
	Geraldine	2121	21	\$450,000		
	Te Moana Scheme	1650	9	\$200,000		
	Pleasant Point	1200	15	\$300,000		
	Seadown	895	21	\$400,000		
	Downlands – Waitohi	700	15	\$300,000		

## Appendix: Annual Plan relevant legislation

### LGA Section 95

#### 95 Annual plan

- (1) A local authority must prepare and adopt an annual plan for each financial year.
- (2) Subject to subsection (2A), a local authority must consult in a manner that gives effect to the requirements of [section 82](#) before adopting an annual plan under this section.
- (2A) Subsection (2) does not apply if the proposed annual plan does not include significant or material differences from the content of the long-term plan for the financial year to which the proposed annual plan relates.
- (3) An annual plan must be adopted before the commencement of the year to which it relates.
- (4) Despite subsection (1), for the first year to which a long-term plan under [section 93](#) relates, the financial statement and funding impact statement included in that long-term plan in relation to that year must be regarded as the annual plan adopted by the local authority for that year.
- (5) The purpose of an annual plan is to—
  - (a) contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and
  - (b) identify any variation from the financial statements and funding impact statement included in the local authority's long-term plan in respect of the year; and
  - (c) provide integrated decision making and co-ordination of the resources of the local authority; and
  - (d) contribute to the accountability of the local authority to the community.
  - (e) *[Repealed]*
- (6) Each annual plan adopted under this section must—
  - (a) be prepared in accordance with the principles and procedures that apply to the preparation of the financial statements and funding impact statement included in the long-term plan; and
  - (b) contain appropriate references to the long-term plan in which the local authority's activities for the financial year covered by the annual plan are set out; and
  - (c) include the information required by [Part 2](#) of Schedule 10.
- (6A) Except where subsection (5) requires otherwise, the local authority must comply with subsection (6)(b) and (c) by means of reference to, rather than duplication of, the long-term plan.
- (7) A local authority must, within 1 month after the adoption of its annual plan, make the plan publicly available.

**LGA Section 95A****95A Purpose and content of consultation document for annual plan**

- (1) The purpose of the consultation document under [section 82A\(3\)](#) is to provide a basis for effective public participation in decision-making processes relating to the activities to be undertaken by the local authority in the coming year, and the effects of those activities on costs and funding, as proposed for inclusion in the annual plan, by—
  - (a) identifying significant or material differences between the proposed annual plan and the content of the long-term plan for the financial year to which the annual plan relates; and
  - (b) explaining the matters in paragraph (a) in a way that can be readily understood by interested or affected people; and
  - (c) informing discussions between the local authority and its communities about the matters in paragraph (a).
- (2) The content of the consultation document must be such as the local authority considers on reasonable grounds will achieve the purpose set out in subsection (1), and must—
  - (a) explain identified differences, if any, between the proposed annual plan and what is described in the long-term plan in relation to the financial year to which the annual plan relates, including (but not limited to)—
    - (i) an explanation of any significant or material variations or departures from the financial statements or the funding impact statement; and
    - (ii) a description of significant new spending proposals, the costs associated with those proposals, and how these costs will be met; and
    - (iii) an explanation of any proposal to substantially delay, or not proceed with, a significant project, and the financial and service delivery implications of the proposal; and
  - (b) outline the expected consequences of proceeding with the matters referred to in paragraph (a), including the implications for the local authority's financial strategy.
- (3) The consultation document—
  - (a) must be presented in as concise and simple a manner as is consistent with this section; and
  - (b) without limiting paragraph (a), must not contain, or have attached to it—
    - (i) a draft of the annual plan as proposed to be adopted; or
    - (ii) a full draft of any policy; or
    - (iii) any detailed information, whether described in [Part 2](#) of Schedule 10 or otherwise, that is not necessary or desirable for the purposes of subsections (1) and (2); and
  - (c) must state where members of the public may obtain the information held by the local authority that is relied on by the content of the consultation document, including by providing links or references to the relevant information on the local authority's Internet site; and
  - (d) may be given the title of the local authority's choice, provided that the title or subtitle make reference to this being a consultation document for the proposed annual plan for the relevant year.
- (4) The local authority must adopt the information that is relied on by the content of the consultation document, as referred to in subsection (3)(c), before it adopts the consultation document.
- (5) For the purposes of this section, a difference, variation, or departure is material if it could, itself or in conjunction with other differences, influence the decisions or assessments of those reading or responding to the consultation document.

**LGA Section 82***Consultation***82 Principles of consultation**

- (1) Consultation that a local authority undertakes in relation to any decision or other matter must be undertaken, subject to subsections (3) to (5), in accordance with the following principles:
  - (a) that persons who will or may be affected by, or have an interest in, the decision or matter should be provided by the local authority with reasonable access to relevant information in a manner and format that is appropriate to the preferences and needs of those persons;
  - (b) that persons who will or may be affected by, or have an interest in, the decision or matter should be encouraged by the local authority to present their views to the local authority;
  - (c) that persons who are invited or encouraged to present their views to the local authority should be given clear information by the local authority concerning the purpose of the consultation and the scope of the decisions to be taken following the consideration of views presented;
  - (d) that persons who wish to have their views on the decision or matter considered by the local authority should be provided by the local authority with a reasonable opportunity to present those views to the local authority in a manner and format that is appropriate to the preferences and needs of those persons;
  - (e) that the views presented to the local authority should be received by the local authority with an open mind and should be given by the local authority, in making a decision, due consideration;
  - (f) that persons who present views to the local authority should have access to a clear record or description of relevant decisions made by the local authority and explanatory material relating to the decisions, which may include, for example, reports relating to the matter that were considered before the decisions were made.
- (2) A local authority must ensure that it has in place processes for consulting with Māori in accordance with subsection (1).
- (3) The principles set out in subsection (1) are, subject to subsections (4) and (5), to be observed by a local authority in such manner as the local authority considers, in its discretion, to be appropriate in any particular instance.
- (4) A local authority must, in exercising its discretion under subsection (3), have regard to—
  - (a) the requirements of [section 78](#); and
  - (b) the extent to which the current views and preferences of persons who will or may be affected by, or have an interest in, the decision or matter are known to the local authority; and
  - (c) the nature and significance of the decision or matter, including its likely impact from the perspective of the persons who will or may be affected by, or have an interest in, the decision or matter; and
  - (d) the provisions of [Part 1](#) of the Local Government Official Information and Meetings Act 1987 (which Part, among other things, sets out the circumstances in which there is good reason for withholding local authority information); and
  - (e) the costs and benefits of any consultation process or procedure.
- (5) Where a local authority is authorised or required by this Act or any other enactment to undertake consultation in relation to any decision or matter and the procedure in respect of that consultation is prescribed by this Act or any other enactment, such of the provisions of the principles set out in subsection (1) as are inconsistent with specific requirements of the procedure so prescribed are not to be observed by the local authority in respect of that consultation.

**LGA Section 82A****82A Information requirements for consultation required under this Act**

- (1) This section applies if this Act requires a local authority to consult in accordance with, or using a process or a manner that gives effect to, the requirements of [section 82](#).
- (2) The local authority must, for the purposes of [section 82\(1\)\(a\) and \(c\)](#), make the following publicly available:
  - (a) the proposal and the reasons for the proposal; and
  - (b) an analysis of the reasonably practicable options, including the proposal, identified under [section 77\(1\)](#); and
  - (c) if a plan or policy or similar document is proposed to be adopted, a draft of the proposed plan, policy, or other document; and
  - (d) if a plan or policy or similar document is proposed to be amended, details of the proposed changes to the plan, policy, or other document.
- (3) In the case of consultation on an annual plan under [section 95\(2\)](#), instead of complying with subsection (2), the local authority must prepare and adopt a consultation document that complies with [section 95A](#).
- (4) Nothing in this section applies where the special consultative procedure under [section 83](#) is required to be used.
- (5) Nothing in this section limits the application of [section 82](#).

Section 82A: inserted, on 8 August 2014, by [section 24](#) of the Local Government Act 2002 Amendment Act 2014 (2014 No 55).

**7 Consideration of Urgent Business Items**

**8 Consideration of Minor Nature Matters**